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COMMERCE FOR ITA COBERG
TREASURY FOR OIA VALVO

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TAGS: EINV EFIN ETRD ELAB ENRG KTDB OPIC PGOV USTR
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SUBJECT: OMAN 2007 INVESTMENT CLIMATE STATEMENT

REF: 2006 STATE 178303

¶1. Per reftel request, Embassy submits the following Investment Climate Statement for 2007.

¶2. Begin text of Investment Climate Statement:

Economic Overview

Oman's economy is based primarily on petroleum and natural gas, which are expected to account for 79% of the government's revenue in calendar year 2007. Oman's proven recoverable oil reserves are estimated at 4.8 billion barrels, though the Ministry of Oil and Gas estimates that there are potentially 38 billion barrels of recoverable oil. Oman's oil production for the first ten months of 2006 averaged 740,700 barrels per day (bpd), a 4.4% drop from the 774,000 bpd over the same period in 2005. The government has estimated production at 730,000 bpd over the course of 2007.

The Oil and Gas Ministry projects that the current dip in production, which has fallen from close to 1 million bpd in 2000, should be reversed by 2010. The government has committed to making significant investments in enhanced oil recovery techniques on behalf of majority state-owned Petroleum Development Oman (PDO) during the course of the current five-year economic plan (2006-2011). In 2007, the government will invest $1.53 billion in petroleum production. PDO, in partnership with Royal Dutch Shell, controls 90 percent of reserves and the lion's share of total production. Further PDO exploration will result in production increases in smaller fields, rather than larger ones. The company will focus on using more nimble foreign operators to obtain better production from its mature fields, such as the Harweel cluster, which is geographically difficult to produce, and the Daleel cluster, which produces only about 15,000 bpd.

Complementing PDO's production is U.S.-owned Occidental Petroleum, which will invest over $3 billion in its recently acquired Mukhainza field. The government expects the investment will result in an increase in the field's production from 10,000 bpd to 150,000 bpd within a five-year time span. Occidental is Oman's second largest producer, with a current production rate of 50,000 bpd. The combined efforts by PDO and Occidental could potentially boost production numbers to approximately 850,000-900,000 bpd by ¶2011.

Oman has developed its natural gas industry to the point where liquefied natural gas (LNG) will account for an estimated 12% of government revenues in 2007. Oman LNG began operations in April 2000 with two 3.3 metric ton per annum (MTPA) LNG production trains. Completion of a third liquefied natural gas (LNG) train, Qalhat LNG, necessitated the expansion of the existing Oman LNG plant in Sur. The expansion, which was completed in December 2005, has brought Oman's total production capacity to 10.3 MTPA, representing approximately 8% of LNG shipped worldwide annually. Off-take of much of the production from this plant has been contracted to Spanish and Japanese buyers. A September 2004 agreement guaranteed a long-term natural gas supply from the government to Qalhat LNG and outlined the terms of an investment partnership between Oman LNG, Qalhat LNG, and the Spanish firm Union Fenosa. As a result of investment in this sector,

gas production is up 25% over the first 10 months of 2006 compared to the same period in 2005.

In June 2003, Oman LNG signed a six-year agreement with BP to supply twelve LNG shipments over six years, beginning in ¶2004. The Omani government is in the process of building its own fleet of LNG vessels to facilitate spot sales. Six LNG transport vessels currently operate under the Omani flag, with three other vessels expected to join the fleet by 2008.

Concerns have been raised about the availability of sufficient natural gas reserves to power Oman's industrialization plans. Oman's gas reserves were revised downward from 30.3 trillion cubic feet (tcf) at the end of 2004, to 24.2 tcf in 2005, according to the Ministry of Oil and Gas. Official estimates claim that potential gas reserves stand at 33.8 tcf, reflecting efforts to encourage international companies to actively explore for gas. The government, which has allocated over $1 billion in the 2007 budget to invest in gas production capabilities, awarded a tender to BP in December 2006 for the exploration of a deep gas field recently discovered by PDO that potentially holds 10 tcf of recoverable gas. BP intends to invest $650 million to develop the Khazan and Makaram gas fields over the next six years. With the new fields being developed by British Gas along the Saudi border, the government is optimistic that indigenous reserves will increase by a sufficient amount to meet forecasted demand. Oman still exports gas to the United Arab Emirates, but will begin importing gas in 2008 to support its own growing industrialization initiatives.

With limited reserves, Oman is focused on diversifying its economy away from oil and gas production. The long-term 'Oman Vision 2020' development plan highlighted the need for the Omani economy to diversify through a process of Omanization, industrialization and privatization. The largest single industrial investment target is the port city of Sohar, near the UAE border. It has witnessed over $12 billion in government investment alone in the financing of several industrial projects, including a petrochemical plant (with Dow Chemical), a steel rolling mill, a fertilizer plant, and an aluminum smelter (being built by Bechtel).

The permitted level of foreign ownership in privatization projects is 70 percent, with up to 100 percent in certain cases. The government has proceeded with several major privatization programs, including power generation projects in Salalah, Sohar, Barka, Rusayl, and the Sharqiyah region, and a water production plant in Sur. Other power and water generation projects are scheduled for Salalah, Sohar, and Duqm.

Oman is developing its light manufacturing sector through industrial estates managed by the Public Establishment for Industrial Estates (PEIE). More than 235 factories operate in the industrial estates, with a total investment of $1.3 billion. The most developed is Rusayl Industrial Estate, located on the outskirts of the capital. The government is looking to further promote small and medium-sized enterprise development through its association with the Sanad and Intilaaqah ("take-off") programs. These programs provide counseling and training assistance for microbusiness formation.

In addition to industrialization efforts, Oman is aggressively marketing itself as an upscale, environmentally conscious tourist destination. In 2004, Oman welcomed 1.5 million tourists, generating revenues of $284 million. Through aggressive marketing campaigns and improved infrastructure, Oman hopes to triple the industry's one percent contribution to GDP and eventually create over 114,000 tourism-related jobs. International investors are taking advantage of significant improvements in local infrastructure to develop ambitious new tourist projects. Investors hope to lure 3 million visitors annually with resorts like the $160 million Barr al-Jissah Resort and Spa (already fully operational), the $800 million Wave project, the $1 billion "Omagine," and the $15 billion Blue City development just north of Muscat.

The Ministry of Tourism and government-owned Oman Tourism Development Company, now called OMRAN, are moving forward on plans to construct 16 hotels and a convention center within the next five years, which will alleviate the chronic hotel room shortages in Muscat. OMRAN primarily serves as the government's investor in tourism projects, either as the sole investor or in partnership with the private sector. The Wave, which represents the first opportunity for non-GCC residents to purchase freehold property, has already broken ground, and the Blue City is set to initiate construction in the early part of 2007. Multi-hotel complexes near the towns of Yiti and Sifah are also in final planning stages, and the

government is planning to finish a three-hotel convention center complex by 2010.

Complementing Oman's development as a tourist destination is Gulf Air's recent decision to consolidate its hubs at Muscat and Manama after the withdrawal of the Abu Dhabi emirate from the consortium. As a result, Gulf Air has rolled out new service from Muscat to Paris, London-Heathrow, Bangkok, Jakarta, Kathmandu, Karachi, Mumbai and Kuala Lumpur. To support the increases in air traffic, the government is finalizing plans to build a second runway and much-needed new terminal at Muscat's Seeb International Airport by 2011, a new terminal and taxiway at Salalah Airport by 2010, and new airports at Sohar, Ras al-Hadd, and Duqm.
Oman is focusing on its port infrastructure as well. Two of Oman's principal ports, Sohar and Salalah, are aggressively moving forward on expansion of their respective operations. The Port of Sohar, a 50-50 joint venture between the Sultanate and the Port of Rotterdam, will anchor the $12 billion industrial development planned for the region. Oman is confident that the Port's advantageous location outside the Strait of Hormuz and within 300km of three large gas reserves will lend to its success. In addition to its berths for industrial liquids, Sohar is positioning itself as Oman's largest container port with over 7 square kilometers of land and a projected 10 dedicated shipping berths. The port is already doing brisk business, with its operations handling volumes that were not expected until 2008.

The Port of Salalah has risen quickly to become a key transshipment hub for Maersk and its parent company, A.P. Moller (APM). Operated by Salalah Port Services (SPS), which is 30% owned by APM Terminals and 20% owned by the government (with the remaining 50% owned by pension funds, Omani corporations, and private investors), the port handled 2.23 million 20-foot equivalent units (TEUs) in 2004, ranking it as the world's 31st busiest port. Plans are ahead of schedule to expand the capacity of the port by adding two berths to the existing four in operation. Once completed, the $234 million expansion, shared roughly evenly between SPS and the Omani government, will increase capacity by 1.8 million TEUs, bringing total capacity to 4.38 million TEUs. The government, which is considering a package of incentives to promote a proposed free zone adjacent to the port, recently oversaw the signing of a memorandum of understanding between the Salalah Free Zone Corporation and the Jebel Ali Free Zone Authority in Dubai. Salalah officials are also depending on the growth of tourism through the construction of four new resort projects by 2010.

The Omani government is finalizing plans to develop a port at Duqm, a lightly populated area along the Arabian Sea. Master plans call for the construction of a drydock facility, oil refinery, and fish processing center to compete with Dubai's Jebel Ali port complex. The Duqm development plan also calls for the construction of an airport to facilitate passenger movements and cargo shipments.

In moving forward on these initiatives, the government is encouraging job-related training for Omanis as a means to spur employment, and the Ministry of Manpower increasingly uses its authority to enforce Omanization efforts, particularly at the lower end of the wage scale. According to the government's recently published Human Development Report, Oman's population is growing at an estimated 3.3% annual rate, with 45.2 percent of the national population younger than 20 years old and 56 percent younger than 24 years. (Note: this growth rate is considerably higher than the 1.9% annual rate reported in the 2003 national census. End Note.) More than 45,000 Omanis graduate from secondary school each year; most are unable to find immediate work or continue with higher education.

The number of expatriates in Oman is around 660,000, roughly one-quarter of the population. In January 2007, the Ministry of National Economy reported a 15.2% increase in the number of expatriates working in the private sector over the same period in 2006, bringing their number to 489,350. By contrast, the Ministry of Manpower reported that only around 44,000 Omanis are formally working in the private sector. Despite government efforts to replace expatriate workers with Omanis, Oman still depends heavily on South Asian and other foreign labor to fill jobs that require physical labor, clerical work, or certain technical skills.

Public companies are traded on the Muscat Securities Market (MSM). A dramatic downturn in the MSM, which lost nearly 70 percent of its value from 1998 to 2001, hurt many small and first-time investors deeply and undermined confidence in the economy. Observers attributed the sell-off to overzealous speculation, combined with abnormally high equity valuations, uninformed investors, and a lack of transparency. The market

began to recoup some of its losses in 2003, and by January 2007, the MSM bucked regional trends to close at an all-time high of 5829.100, up 14% from 2005. During this time, the MSM witnessed several high-profile offerings. AES Barka Power Company, a subsidiary of the AES Corporation of Virginia, mobilized capital equal to seventeen times the amount of shares offered through its IPO. Similarly, strong investor interest propelled the IPOs of Omantel, Dhofar Power Company, and Taageer Finance Company. Most recently, Bank Sohar floated its IPO in January, which was oversubscribed five times.

The strong performance of the MSM is partly reflective of the government's efforts to revive the market and regain investors' confidence. The government announced a $260 million bailout in November 2000, offering to aid "small investors" and creating a national investment fund made up of contributions from government pension funds and the State General Reserve Fund, as well as offering incentives for investment companies to merge in the interest of enhancing efficiency and service offerings. In January 2007, the government's regulatory agency, the Capital Market Authority (CMA), moved to encourage additional foreign investment in the market with the complete lifting of the 49% cap on foreign holdings in mutual funds. The CMA also took steps to improve transparency in the market, including the enforcement of the International Accounting Standard (IAS) 39 and the establishment of new corporate governance standards. The CMA also held seminars emphasizing the importance of accurate media reporting for market confidence and growth.

Openness to Foreign Investment

Oman actively seeks private foreign investors, especially in the industrial, information technology, tourism, and higher education fields. The government hopes to attract over $12 billion in new foreign investment over the next 25 years. Investors transferring technology and management expertise, and providing employment and training for Omanis, are particularly welcome. Omani law relating to foreign investment is contained in the Foreign Business Investment Law of 1974, as amended. A Commerce Ministry spin-off, the Omani Center for Investment Promotin and Export Development (OCIPED), opened in 1997to attract foreign investors and smooth the pathfor business formation and private sector projec development.OCIPED also provides prospective forign investors with information on government reglations, which are not always transparent and somtimes contradictory. Nevertheless, despite OCIPE's efforts to assist new business development, ad the Ministry of Commerce and Industry's effort to establish a 'one-stop shop' for government clearances, the approval prcess for establishing a business can be tedious,particularly with respect to land acquisition an labor requirements.

With Oman's accession to th World Trade Organization in October 2000, automtic approval of majoity foreign ownership (up t 70 percent) is available. Registration of thes joint ventures is treated in the same manner as tat common to all registrants. The foreign firm mst supply documentary evidence of its registratin in its home country, its headquarters location its capital holdings, and its principal activites. If a subsidiary, it must demonstrate its auhority to enter the joint venture. Except in thepetroleum sector, where concession agreements withthe Ministry of Oil and Gas determine the terms f investment, new entities with greater than 70 ercent foreign ownership are subject to the approval of the Minister of Commerce and Industry.

In early 1999, the government amended its corporate tax policy and lifted the requirement that foreign-owned joint ventures include a publicly traded joint stock company listed on the MSM in order to enjoy national tax treatment. In 2003, Oman extended national tax treatment to all registered companies regardless of percentage of foreign ownership, i.e. a maximum rate of 12% tax on net profit. Omani branches of foreign companies are treated as foreign companies and therefore taxed at a maximum of 30%. Since Omani labor and tax laws are complex, investors should consider engaging local counsel.

New majority foreign-owned entrants are barred from most professional service areas, including engineering, architecture, law, or accountancy. In 1996, existing foreign-owned professional service firms were given timeframes within which to obtain Omani partners (e.g., five years for accounting firms). An exception exists for professional service firms with subspecialties of critical importance to Oman. Wholly U.S.-owned service firms present in Oman include Ernst and Young, KPMG and the law firm

Curtiss, Mallett, Colt, Mosle, and Prevost. Under Omani commercial law, wholly foreign-owned branches of foreign banks are allowed to enter the market.

The permitted level of foreign ownership in privatization projects increased to 100 percent in July 2004, based on a Royal Decree providing an updated privatization framework. By privatization, Oman refers not only to the conversion of a state-owned or mixed enterprise into a private sector firm, but also to the establishment of any new firm providing a commercial service that had previously been provided by the state. For example, the government recently completed a tender that included the privatization of an existing power plant in Rusayl in addition to the construction of a new power plant in Barka. One approach to partial conversion was applied to the state-run telephone company, Omantel, in which the government floated 30 percent of its stake in the company, while retaining the remaining 70 percent.

Industrial establishments must be licensed by the Ministry of Commerce and Industry. In addition, a foreign firm interested in establishing a company in Oman must obtain relevant approvals from other ministries, such as the Ministry of Regional Municipalities, Environment, and Water Resources. Foreign workers must obtain work permits and residency permits from the Ministry of Manpower and the Royal Oman Police's Immigration Office. Oman's investment incentives focus on industrial development and include the following:

- Five year tax holiday, renewable once for an additional five years;
- Low-interest loans from the Oman Development Bank (now available on a very limited basis, and only for small firms);
- Low-interest loans from the Ministry of Commerce and Industry;
- Subsidized plant facilities and utilities at industrial estates;
- Feasibility studies supplied by the Ministry of Commerce and Industry; and
- Exemption from customs duties on equipment and raw materials during the first ten years of a project, with packaging materials exempted for five years.

Conversion and Transfer Policies

Oman has no restrictions or reporting requirements on private capital movements into or out of the country, and there have been no reports of difficulty in obtaining foreign exchange. The Omani Rial is pegged to the dollar at a rate of 0.3849 Omani Rials to the U.S. dollar. The Rial was devalued slightly in 1986 due to the collapse in oil prices, although the government did not find the devaluation productive. Oman maintains a strong and effective regulatory regime with respect to its formal financial institutions, and local banks are subject to Central Bank regulations on lending practices to individuals and corporations outside the Sultanate. The government reinforced its anti-money laundering regulations through the March 2002 ratification of the "Law of Money Laundering" and the July 2004 promulgation of implementing regulations. Under these provisions, the commercial banks work closely with the Central Bank and the Royal Oman Police to identify suspicious transactions. Individuals have to be resident in Oman to open a bank account and transfer funds. For foreign bank transfers, Omani banks require complete documentation of the source of funds before approving the transaction. Omani banks, which maintain a strict "know your customer" policy, will not process transfer requests from unknown or suspicious foreign financial institutions.

Expropriation and Compensation

Oman's belief in a free market economy and desire for increased foreign investment and technology transfer make expropriation or nationalization extremely unlikely. In the event that a property was to be nationalized, Article 11 of the Basic Law of the State stipulates that the Government of Oman will provide prompt and fair compensation. Furthermore, under the U.S.-Oman Free Trade Agreement, Oman will follow international law standards for expropriation and compensation cases, with access to international arbitration.

Dispute Settlement

Oman is a party to the International Center for the Settlement of Investment Disputes (ICSID). However, the ultimate adjudicator of business disputes within Oman is the Commercial Court, which was reorganized in mid-1997 from the former Authority for Settlement of Commercial Disputes

(ASCD). The Commercial Court has jurisdiction over most tax and labor cases, and can issue orders of enforcement of decisions (the ASCD was limited to issuing orders of recognition of decisions). The Commercial Court can also accept cases against governmental bodies, which the ASCD was unable to do. In such cases, however, the Commercial Court can issue, but not enforce, rulings against the government. Many practical details remain to be clarified.

Decisions of the Commercial Court are final if the value of the case does not exceed $26,000. A Court of Appeals exists for cases where the sum disputed is greater than $26,000, and a Supreme Court was established in mid-2001. Decisions of the Supreme Court are final. However, a case may be re-opened after a judgment has been issued if new documents are discovered or irregularities (e.g., forgery, perjury) are found. There is no provision for the publication of decisions.

Oman maintains other judicial bodies to adjudicate various disputes. The Labor Welfare Board under the Ministry of Manpower hears disputes regarding severance pay, wages, benefits, etc. The Real Estate Committee hears tenant-landlord disputes, the Police Committee deals with traffic matters, and the Magistrate Court handles misdemeanors and criminal matters. All litigation and hearings are conducted in Arabic.

The Oman Chamber of Commerce and Industry has an arbitration committee to which parties to a dispute may refer their case when the amounts in question are small. Local authorities, including 'walis' (district governors appointed by the central government), also handle minor disputes. While Oman is a member of the GCC Arbitration Center, located in Bahrain, that center has yet to establish a track record.

Performance Requirements and Incentives

Since Oman's accession to the WTO in November 2000, it has been subject to TRIMs obligations.

Under the Industry Organization and Encouragement Law of 1978, incentives are available to licensed industrial installations on the recommendation of the Industrial Development Committee. 'Industrial installations' include not only those for the conversion of raw materials and semi-finished parts into manufactured products, but also mechanized assembly and packaging operations. Firms involved in agriculture and fishing may also be included. Companies must have at least 35 percent Omani employees, distributed evenly among different administrative levels, to qualify for these incentives.

In addition, companies selling locally produced goods are given priority for government purchases, provided that the local products meet standard quality specifications and their prices do not exceed those of similar imported goods by more than 10 percent. This incentive is available to Omani-owned commercial enterprises, as well as foreign industrial producers in joint ventures with local concerns. The government offers subsidies to offset the cost of feasibility and other studies if the proposed project is considered sufficiently important to the national economy. Only in the most general sense of business plan objectives does proprietary information have to be provided to qualify for incentives.

Right to Private Ownership and Establishment

Under Oman's foreign capital investment law, non-Omanis are not allowed to conduct commercial, industrial, or tourist-related businesses, or participate in any Omani company without a license issued by the Ministry of Commerce and Industry.

According to Oman's commercial companies law, all actions by private entities to establish, acquire, and dispose of interests in business enterprises must be announced in the commercial register, and may be subject to the approval of

the Ministry of Commerce and Industry. Subject to the licensing and taxation previously noted, foreign and domestic entities can engage in all legal forms of remunerative activity. Government entities do not compete with the private sector, and public policy favors the privatization of public utilities.

Protection of Property Rights

Real property rights are recognized and enforced in Oman, and records are well kept. There is no contemporary history of arbitrary seizures of land. Subject to government approval, GCC nationals may own property anywhere in Oman. The government actively seeks to promote tourism, and a key component of the drive to attract investment is the ability to sell villas and estates in mixed tourist/residential developments slated for construction. For this reason, the Ministry of Housing, Electricity and Water issued a new law in November 2004 allowing foreign nationals to own real estate within government-recognized tourism complexes in Oman. This law permits freehold ownership of residential property, including full rights of inheritance according to the laws of the owner's country of origin, as well as residency status for landowners and their immediate family members. The Ministry of Tourism is finalizing the implementing regulations and preparing to designate the zones, such as the Wave and Blue City, within which the law will apply. The law does not apply to commercial real estate, which cannot be owned by non-GCC nationals.

Oman will provide strong intellectual property rights protection under the U.S.-Oman Free Trade Agreement. The government is finalizing revisions to its industrial property and copyright laws to comply with these obligations prior to the Agreement's entry into force. Under its FTA obligations, Oman will provide increased IPR protection for copyrights, trademarks, geographical indications, and patents. Oman will also improve enforcement and protection of undisclosed test data from unfair commercial use.

These revisions will build upon Oman's existing intellectual property rights regime, already strengthened by the passage of WTO-consistent intellectual property laws on copyrights, trademarks, industrial secrets, geographical indications and integrated circuits in 2000. Further, in October 2000 Oman issued new, WTO-consistent IPR legislation to protect patents and other intellectual property rights.

Under Oman's TRIPs-compliant trademark law, trademarks must be registered and noted in the Official Gazette through the Ministry of Commerce and Industry. Local law firms can assist companies with the registration of trademarks. Oman's copyright protection law extends protection to foreign copyrighted literary, technical, or scientific works; works of the graphic and plastic arts; and sound and video recordings. In order to receive protection, a foreign-copyrighted work must be registered with the Omani government by depositing a copy of the work with the government and paying a fee. Since January 1999, the government has enforced copyright protection for audio and videocassettes, and destroyed stocks of pirated cassettes seized from vendors. The government did not extend protection to foreign-copyrighted software until late 1998, when it declared that retailers must halt the importation and sale of non-licensed software by July 1, 1999.

In October 2005, the government designated the Ministry of Commerce and Industry as the primary investigative authority on intellectual property issues, whose efforts are supported by the Royal Oman Police. To improve inter-ministerial coordination, a committee consisting of members from the Ministry of Commerce and Industry, Ministry of Information, Ministry of Heritage and Culture and Royal Oman Police meets regularly to review intellectual property concerns. Enforcement of the copyright protection decree by this committee has been effective, as once plentiful pirated video and audiotapes and computer software have largely disappeared from local vendors' shelves. For example, in 2006, the government conducted a series of coordinated sweeps that netted over 40,000 counterfeited media products.

Nonetheless, under-the-counter sales of unauthorized software and DVDs persist in various locations, and authorities continue to grapple with effective enforcement measures

against such sales. To assist government efforts, the private sector has been active in promoting awareness and enforcement of intellectual property rights. For example, in late October 2003, 16 Omani companies signed the Business Software Alliance (BSA) Code of Ethics, whose number has now grown to almost 40. The Code of Ethics declares that the signatories would neither commit nor tolerate the manufacture, or use or distribution of unlicensed software and would only supply licensed software to customers. The BSA recently praised Oman for its efforts in combating software piracy, and the government signed a three-year contract with Microsoft Corporation for the use of the company's licensed products in 2006. Furthermore, according to local satellite TV representatives, the Ministry of Commerce and Industry has staged sporadic raids on unlicensed

distributors of pirated satellite signals in response to industry complaints.

Oman joined the World Intellectual Property Organization (WIPO) in February 1997, and registered as a signatory to the Paris and Berne conventions on intellectual property protection in July 1999. Oman also acceded to the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty in September
¶2005. The Ministry of Commerce and Industry, in coordination with WIPO, has conducted a number of seminars to raise national awareness of the importance of protecting intellectual property. Oman has also worked closely with the United States Patent and Trademark Office (USPTO) in the area of intellectual property rights protection. Several Omani officials have traveled to the United States for IPR training, and the USPTO hosted IPR seminars for government officials in January and December 2006.

Transparency of the Regulatory System

The government recognizes that its regulatory environment can hamper investment and commercial activity. In addition to ownership and agency requirements already mentioned, licensing of business activities can be time-consuming and complicated. The absence of a particular clearance can stall the entire process. For example, processing shipments in and out of the Mina Qaboos Port can add significantly to the amount of time it takes to get goods to market or inputs to a project.

Oman's tax laws can also impede foreign investment. Although Oman amended its tax laws to allow national tax treatment for joint ventures regardless of percentage of foreign participation, branches of foreign companies are taxed at 30 percent of income. Oman's labor laws, which require minimum quotas of Omani employees depending on the type of work, form another potential impediment to foreign investment. The government's Omanization effort has been the subject of criticism in the Omani private sector, which often complains that it can harm productivity and restrict hiring and firing policies.

Government red tape and long delays in official decision-making are other frequent complaints in the local private sector. Because decisions often require the approval of multiple ministries, the government decision-making process can be tedious and non-transparent.

In 2003, the Telecommunications Regulatory Authority (TRA) began functioning as a legal and regulatory body in Oman. The TRA oversees the process of liberalization and privatization of the telecommunications sector. Chaired by the Minister of Transport and Communications, the TRA's temporary committee members include officials from the Ministry of National Economy, Ministry of Defense, and Royal Oman Police. In addition, the new privatization framework law passed in July 2004 provides for a new regulator for public utilities that are being privatized in the power and water sectors. In October 2005, the government announced that it had awarded its first broadcasting licenses to two Omani private sector enterprises, one to operate a radio and television station, the other to operate two radio stations.

The government has issued a series of regulations aimed at increasing transparency and disclosure in the financial market. The Capital Market Authority (CMA) has ordered all public companies to comply with a set of standards for disclosure. Under the requirements, holding companies must publish the accounts of their subsidiaries with the parent companies' accounts. Companies must fully disclose their investment portfolios, including details of the purchase cost and current market prices for investment holdings. The new initiatives also require publication of these financial statements in the local press. At the same time, the Central Bank has introduced new rules to limit the level of "related party transactions" (financial transactions involving families or subsidiary companies belonging to major shareholders or board members) in Oman's commercial banks. The new rules will help increase transparency in financial transactions in local banks and the Muscat Securities Market (MSM), and will help clarify the activities of publicly traded companies. Finally, the CMA moved to shorten the time period companies have to file their financial statements after the close of the fiscal year from three months to two, and shortened the time period in which companies have to hold their annual meeting after the close of the fiscal year from four months to three.

Efficient Capital Markets and Portfolio Investment

There are no restrictions in Oman on the flow of capital and the repatriation of profits. Access to Oman's limited commercial credit resources is open to Omani firms with some foreign participation. Joint stock companies with capital in excess of $5.2 million must be listed on the MSM. According to the recently amended Commercial Companies Law, companies must have been in existence for at least two years before being floated for public trading.

The Sultanate has two loan programs to promote investment. The Ministry of Commerce & Industry (MOCI) administers a program designed to promote industrial investment. Formerly interest free, the program now charges 4 percent interest, with generous repayment terms. MOCI loans will match equity contributions in the Muscat capital area, or 1.25 times equity for other locations. Projects with a high percentage of local content or employing large numbers of Omanis are given priority, as are tourism projects outside the capital area. The Oman
Development Bank also administers a loan program to support development of smaller loans to industry, agriculture, fisheries, petroleum, mining, and services.

Foreigners may invest in the MSM, as long as this is done through an authorized broker. Since the 1998 market downturn, MSM statistics show that the percentage of foreign investment in the MSM increased from 16.16% at the end of 2005 to 23.28% at the end of 2006, the second highest level since the opening of the market.

The banking sector currently consists of 14 banks (five domestic and nine foreign), with Bank Muscat being the largest. Most recently, the Bank of Beirut and the Commercial Bank of Qatar announced that they would be expanding their operations to Oman. In addition, there are three government controlled lending entities. The sector has largely rebounded from the 1999 economic downturn, as provisional 2006 figures from the Central Bank indicate a combined net profit of $410 million, up from $320 million in ¶2005. The banking law issued in November 2000 allowed more efficient control over the financial sector by the authorities. Furthermore, early in 2003 the Central Bank of Oman promulgated new rules and regulations to ensure proper and efficient management of the banks. The effect of this circular was enhanced by the implementation of a Code of Corporate Governance, as well as amendments to th Capital Market Law and the Commercial CompaniesLaw that stipulated that boards of directors of al jointly listed companies must appoint an interal audit committee, an internal auditor, and a lgal advisor.

In November 2005, the government st limits on the remuneration of boards of directrs by amending the Commercial Companies Law throuh Royal Decree 99/2005. Under the decree and acompanying regulations, the remuneration for a bord of directors may not exceed five percent of acompany's net profits, up to a maximum of 200,00 RO. ($516,000), unless the compay's Articles of Association provides for a higher rate. The regulations also require that company reports be published within 2 months of the end of the financial year, and that an ordinary meeting of the general assembly be held within three months of the end of the financial year.

Political Violence

Politically motivated violence is virtually unknown in Oman. Since October 2000, there have been some demonstrations, with the most recent occurring in May
2005, but these were generally orderly.

Corruption

Article 53 of the Basic Law of the State, issued in November 1996, compelled ministers to resign their offices in public shareholding enterprises. As of
1999, Under Secretaries (deputy ministers) are also required to resign from the boards of public companies. Most major contracts are awarded through
a slow, rigorous, but generally clean tender process. Oman advertises tenders in the local press, international periodicals, and on the Tender Board's website. Also, bidders are now requested to be present at the opening of bids, and interested parties may view the process on the Tender Board's website.
Contracts awarded through a ministry's internal tender process are subject to fewer controls.

Although Oman is not a signatory to the OECD convention on combating bribery, Sultan Qaboos has dismissed several

ministers and senior government officials for corruption during his reign. In one of Oman's biggest corruption scandals in several years, over 30 government and private sector employees, including the Under Secretary of the Ministry of Housing, Electricity, and Water, were convicted in October 2005 on counts of bribery and forgery, among others. While Oman has not yet signed the UN Convention Against Corruption, it has been recognized by Transparency International for its efforts to fight corruption. In 2006, Transparency International ranked Oman 39th best out of 133 countries in its "Corruption Perception Index."

Bilateral Investment Agreements

After consultations with Congress, the United States began Free Trade Agreement (FTA) negotiations with Oman in March ¶2005. On January 19, 2006, U.S. Trade Representative Rob Portman and Omani Minister of Commerce and Industry Maqbool bin Ali Sultan signed the FTA. Following Congressional approval of the FTA in September 2006, the President signed the FTA into law on September 26, 2006. Sultan Qaboos signed the FTA shortly afterwards. The FTA will be brought into force once the governments of both the United States and Oman certify that respective regulations are in compliance with the provisions of the Agreement. The FTA supplants previous discussions regarding a Bilateral Investment Treaty, as the FTA includes an investment chapter.

OPIC and Other Investment Insurance Programs

Oman is eligible for Export-Import Bank of the United States (EXIM) financing and insurance coverage. In late 2003, the Overseas Private Investment Corporation (OPIC) proposed an update to its existing 1976 bilateral agreement with Oman to reflect current investment realities. An agreement has yet to be reached on the proposed updates.

Labor

Oman,s 2003 Labor Law governs employee/employer relations in the private sector, and enumerates the protections afforded both Omani and migrant workers. The law sets the minimum working age at 15, provides clear guidelines on wages and working hours for Omani citizens, and specifies the penalties for noncompliance with the its provisions. In conjunction with the U.S. - Oman Free Trade Agreement, Oman made significant amendments to the 2003 Labor Law. The amendments and associated Ministerial Decisions allow for more than one union per firm, require employers to engage in collective bargaining over terms and conditions of employment, and specify guidelines for conducting strikes. The amendments also prohibit employers from firing or otherwise penalizing workers for engaging in union activity, and increase the penalties for hiring underage workers or engaging in forced labor.

The minimum wage for Omanis working in the private sector, including salary and benefits, is 140 R.O. (about $363) per month. Work rules must be approved by the Ministry and posted conspicuously in the work place. The workweek is five days in the public sector and generally five and one-half days in the private sector. The labor law and subsequent regulations also detail requirements for occupational safety and access to medical treatment. There is no minimum wage for non-Omanis, however. In addition, non-Omanis in retail, personal service outlets, construction, and petroleum fields typically work up to seven days a week, depending on their contracts. Oman relies heavily on expatriate labor, primarily from India, Bangladesh, Pakistan and Sri Lanka, to perform menial and physically taxing work. Expatriates also fill many managerial positions.

However, 'Omanization', the localization of labor, is a high priority for the government. Foreign nationals may not be employed as human resource officers, guards, light vehicle drivers, Arabic typists, agricultural workers, forklift or mixer operators, entry level accountants or public relations officers, unless the employer can show that there are no Omanis available for the position. Only Omanis are permitted to work as taxi drivers, customs expediters, and fishermen. Since 1999, the government has 'Omanized' (i.e., banned expatriates from working in) a number of low-wage jobs, including vegetable and grocery shopkeepers, water tank truck drivers, gas cylinder truck drivers, plow operators, and real estate agents. Through concerted training efforts, the government has also sought to increase the number of Omanis employed as gasoline station attendants, waiters, barbers, and hairdressers, while allowing expatriates to remain employed in such positions. The government recently

announced its intention to Omanize 24 more occupation classifications over the next four years. The first phase of the plan will include 16 occupation classifications, mainly different varieties of shopkeepers and repairmen. The government continues to expanding its Omanization drive to areas outside the capital of Muscat, particularly in the retail, transport, and light manufacturing sectors.

In 1994, Oman became a member of the International Labor Organization (ILO). Oman has since ratified four of the eight core ILO standards, including those on forced labor, abolition of forced labor, minimum working age, and the worst forms of child labor. Oman has not ratified conventions related to freedom of association or collective bargaining, or the conventions related to the elimination of discrimination with respect to employment and occupation.

Foreign Trade Zones/Free Ports

The government is keen to establish free zones to complement the Sultanate's port development. Salalah's free zone is taking shape, as the Salalah Free Zone Company (SFZC) is working with the government to finish the first phase of the project, which includes the establishment of roads and utility lines, as well as the leveling of industrial plots. A proposed incentive package, which has yet to be officially approved by the Omani government, reportedly will include a 30-year tax holiday, duty-free treatment of imports and exports, permission for 100% foreign ownership, and tax-free repatriation of profits. Additional benefits include a one-stop shop for business registration and a low 10 percent Omanization requirement. U.S.-based Octal Petrochemicals, India-based TVS Group, and government-supported Salalah Methanol are the anchor tenants. The government recently oversaw the signing of a memorandum of understanding between the Salalah Free Zone Corporation and the Jebel Ali Free Zone Authority in Dubai to explore areas of cooperation. The government is also evaluating the establishment of a free zone adjacent to Sohar Port. In addition, the government opened a free trade zone at an interior border crossing point with Yemen (al-Mazyounah) in 1999.

Oman has no general provisions for the temporary entry of goods. In the case of auto re-exports, a company can import vehicles into the country for the purpose of re-export; duties are refunded if the vehicle is re-exported within six months.

Foreign Direct Investment Statistics and Major Foreign Investors

Systematic information on foreign direct investment is limited. As per Capital Market Authority statistics from December 2006, foreign participation equaled 24% in terms of shares held in the Muscat Securities Market. Foreign capital constituted 25% of the shares held in finance, 25% in manufacturing, and 18% in insurance and services.

The largest foreign investor is Royal Dutch Shell Oil, which holds 34 percent of Petroleum Development Oman, the state oil company, and 30 percent of Oman Liquid Natural Gas. Other companies, such as Occidental Petroleum, BP Amoco, Novus Petroleum, Hunt, and Nimr have also invested in Oman's petroleum and gas sectors. Two U.S. firms, Gorman Rupp (water pumps) and FMC (wellhead equipment), have entered into industrial joint ventures with Omani firms. Both joint ventures involve modest manufacturing operations. Since 1999, Oman has witnessed increased foreign direct investment through the privatization process. Major foreign investors that have entered the Omani market recently include PSEG Global (U.S.), AES (U.S.), and National Power (U.K.). Dow Chemical of the U.S. announced a joint venture with Oman Oil Company and the Government of Oman in July 2004 to develop a large petrochemical plant in Sohar. Bechtel is constructing an aluminum smelter on behalf of Sohar Aluminum.

End text of Investment Climate Statement.
GRAPPO